Notes to the financial statements

for the year ended 31 December 2002

(1) ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles and applicable accounting standards. The principal accounting policies adopted within that convention are set out below. These are unchanged from the previous year with the exception of the adoption of Financial Reporting Standard 19 "Deferred Tax", the effects of which are explained in note 20.

An unaudited memorandum disclosure has been made on the face of the primary financial statements to show the Euro equivalents. In addition, profit on ordinary activities before taxation and amortisation of intangible assets has been disclosed on the face of the Group profit and loss account to assist understanding.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company, its subsidiary undertakings and the Group's shares of the results and net assets of associated undertakings and joint ventures. The results of undertakings acquired or disposed of during the year are dealt within the Group financial statements for the period that the Group has control. All material undertakings within the Group make up their accounts to 31 December.

Acquisitions

Businesses acquired are accounted for using the acquisition method. On the acquisition of a business, or an interest in an associate, fair values reflecting conditions at the date of acquisition, are attributed to the net assets including retail pharmacy licences acquired. Adjustments are also made to bring accounting policies into line with those of the Group. Where statutory merger relief is applicable, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

Foreign exchange

The profit and loss accounts and cash flows of undertakings with a reporting currency other than sterling are translated into sterling at average rates of exchange, other than substantial exceptional items that are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to reserves.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of undertakings with a reporting currency other than sterling are taken to reserves, less exchange differences arising on related currency borrowings and financial instruments. Tax charges and credits arising on such items are also taken to reserves. Other currency translation differences are taken to the profit and loss account.

The results, assets and liabilities of undertakings in hyper-inflationary economies are determined using an appropriate relatively stable currency as the functional currency. The currency translation differences arising from this process are taken to the profit and loss account.

Transactions in currencies other than the reporting currency of the undertaking are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related foreign currency contract.

Turnover

Turnover is the amount derived from the sale of goods and services outside the Group, excluding value added tax.

Retail pharmacy licences

Retail pharmacy licences, being the exclusive right to be reimbursed for the dispensing of prescription medicines from a specified location, are capitalised, where there is an asset that can be separated from the other identifiable assets that together form a retail pharmacy business. Where they have a finite economic life they are amortised over that economic life. Where they do not have a finite economic life they are not amortised and are subjected to an annual impairment test. The cost of retail pharmacy licences less any impairment in value and any amortisation are included in intangible fixed assets.

(1) ACCOUNTING POLICIES (CONTINUED)

Goodwill

The excess of the purchase price over the fair value of net assets (including retail pharmacy licences) of businesses acquired in the year is capitalised and amortised over its useful economic life, up to a maximum of 20 years. Goodwill acquired prior to 1998 was written-off against reserves, and will be charged through the profit and loss account on subsequent disposal.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values on a straight line basis over the period of their estimated useful economic lives:

Freehold buildings	– 50 years
Long and short leasehold properties	– the shorter of the period of the lease and 50 years
Furniture, fixtures and equipment	– between 3 and 10 years
Motor vehicles	– between 3 and 10 years

Freehold land is not depreciated.

Leased assets

Assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. Finance charges are allocated over the primary period of the lease in proportion to the capital element of the lease outstanding. Costs of operating leases are charged to the profit and loss account as they accrue.

Investments

Investments are stated at cost less provisions for impairment and, for the Company's investments prior to 1998, an amount equal to the goodwill written-off to reserves.

Employee Share Ownership Plans (ESOPs)

Assets and liabilities held by ESOPs are included in the balance sheet where the Group has de facto control of the shares held by the ESOP trust. Where the shares are conditionally gifted or under option to employees at below book value the difference is charged as an administration cost over the period to which the employee's performance relates.

Stocks

Stocks consist of goods held for resale and are valued at the lower of cost and net realisable value.

Derivatives and other financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profit or loss recognised immediately.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging balance sheet assets and liabilities are revalued at closing rates and exchange differences arising are taken to reserves. Gains and losses on contracts hedging forecast transactional cash flows, and on option instruments hedging the sterling value of foreign currency denominated income, are recognised in the hedged periods.

Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged. Finance costs associated with debt issuances are charged to the profit and loss account over the life of the issue.

Notes to the financial statements (continued)

for the year ended 31 December 2002

(1) ACCOUNTING POLICIES (CONTINUED)

Securitised receivables

Where the Group has sold trade receivables and received an initial cash payment on a non-recourse basis in return, the gross amount of the trade receivables sold are disclosed on the face of the balance sheet as securitised receivables and the amounts received as non-recourse receipts. The Group retains an interest in the receivables represented by the net of these two amounts.

Charges payable in respect of receivables so securitised that are fixed are included within administration expenses. Costs that vary according to a principal amount, an interest rate and a time period are treated as net interest payable and similar charges.

Pensions

Costs of funding defined benefit pension schemes operated by the Group are estimated on the basis of independent actuarial advice, and are charged to the profit and loss account over the expected service lives of participating employees. This accounting policy follows the funding policy except where an actuarial valuation indicates that a deficiency or a surplus has arisen. Such surpluses or deficiencies are, for funding purposes, dealt with as advised by the actuary. For accounting purposes, they are spread over the expected remaining service lives of participating employees. The costs of funding the defined contribution pension schemes operated by the Group are charged to the profit and loss account as they are payable.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law, at the balance sheet date. Deferred tax is not provided on timing differences arising from either the revaluation of fixed assets or rolled over gains where there is no commitment to sell the asset. Deferred tax is only provided on unremitted earnings of subsidiaries and associates where there is a commitment to remit the earnings. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

(2) EXCHANGE RATES

The following exchange rates have been used in the preparation of the financial statements.

	Euro/£	Czech Koruna CZK/£	Norwegian Kroner NOK/£	Swiss Franc CHF/£
As at 31 December 2002	1.534	48.42	11.15	2.226
As at 31 December 2001	1.635	51.76	13.05	2.416
Average for 2002	1.593	49.06	11.99	2.335
Average for 2001	1.613	54.89	13.00	2.434

(3) GROUP OPERATING PROFIT

	Continuing operations £million	Acquisitions £million	**2002 £million**	2001 £million
Turnover	7,818.7	204.8	**8,023.5**	7,314.1
Cost of sales	(7,137.7)	(180.1)	**(7,317.8)**	(6,713.8)
Gross profit	681.0	24.7	**705.7**	600.3
Administrative expenses	(519.0)	(18.8)	**(537.8)**	(459.8)
	162.0	5.9	**167.9**	140.5
Other operating income	27.8	0.3	**28.1**	32.3
Group operating profit	189.8	6.2	**196.0**	172.8

Distribution costs are considered to be a component of cost of sales, due to the nature of the Group's business, and as such are not separately disclosed.

Other operating income includes income received from services provided to pharmacists, doctors and suppliers, together with dividend income from listed investments.

(4) SEGMENTAL ANALYSIS

		Total operating profit			Total operating profit	
	Turnover 2002 £million	**before amortisation of intangible assets 2002 £million**	**after amortisation of intangible assets 2002 £million**	Turnover 2001 £million	before amortisation of intangible assets 2001 £million	after amortisation of intangible assets 2001 £million
Wholesale Northern Europe	**2,770.5**	**77.4**	**71.5**	2,433.7	71.0	65.3
Wholesale Southern Europe	**4,988.9**	**73.8**	**71.2**	4,727.0	70.2	68.0
Retail – Europe	**972.5**	**65.4**	**65.0**	719.7	56.4	55.8
Corporate	**–**	**(11.7)**	**(11.7)**	–	(16.3)	(16.3)
Intra-group	**(708.4)**	**–**	**–**	(566.3)	–	–
Group	**8,023.5**	**204.9**	**196.0**	7,314.1	181.3	172.8
Share of operating profit in associated undertakings	**–**	**21.5**	**17.8**	–	17.4	14.6
Total	**8,023.5**	**226.4**	**213.8**	7,314.1	198.7	187.4

The analysis of turnover by destination is not materially different from the analysis of turnover by origin.

Analysis of net assets	**2002 £million**	2001 restated £million
Wholesale Northern Europe	**339.0**	254.7
Wholesale Southern Europe	**505.4**	522.1
Retail – Europe	**642.5**	512.2
Corporate	**54.7**	53.2
Net operating assets	**1,541.6**	1,342.2
Associated undertakings	**250.5**	167.6
Proposed dividends	**(34.8)**	(31.5)
Net borrowings	**(880.2)**	(781.4)
	877.1	696.9

Notes to the financial statements (continued)

for the year ended 31 December 2002

(5) STAFF COSTS

The average number of persons employed by the Group, including Directors and part time staff, was:

	2002	2001
Wholesale Northern Europe	**4,965**	4,659
Wholesale Southern Europe	**7,169**	7,099
Retail	**9,103**	8,017
Corporate	**55**	48
	21,292	19,823

Costs incurred in respect of these employees were:

	2002 £million	2001 £million
Wages and salaries	**296.0**	256.5
Social security costs	**54.7**	48.6
Other pension costs	**12.5**	8.2
	363.2	313.3

Directors' emoluments, exclusive of pension contributions, for the financial year ended 31 December 2002 were £3.0 million (2001 £2.4 million). Further details on the Directors, including their emoluments, are given in the Board report on remuneration.

(6) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £million	2001 £million
Interest payable		
Bank loans and overdrafts	**32.9**	36.3
Loan notes	**20.9**	6.9
Other loans	**0.8**	3.0
Finance charges payable on securitised receivables	**2.2**	1.6
Finance charges payable on finance leases	**0.5**	0.8
Associate interest payable	**5.3**	4.0
	62.6	52.6
Discount on deferred acquisition consideration	**0.2**	–
Interest receivable		
Bank deposit interest receivable	**(0.5)**	(0.8)
Other finance income	**(8.9)**	(10.6)
Associate interest receivable	**(6.5)**	(1.6)
	(15.9)	(13.0)
	46.9	39.6

(7) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation has been arrived at after charging:

	2002 £million	2001 £million
Depreciation of owned assets	**36.0**	32.0
Depreciation of assets held under finance leases	**1.1**	2.1
Total depreciation of tangible fixed assets	**37.1**	34.1
Goodwill amortisation – subsidiary undertakings	**8.5**	7.9
– associated undertakings	**3.7**	2.8
Amortisation of retail pharmacy licences	**0.4**	0.6
Total amortisation of intangible assets	**12.6**	11.3
Administration costs of securitised receivables	**6.2**	6.7
Profit on disposal of fixed assets	**(8.0)**	(5.5)
Operating lease rentals – land and buildings	**18.7**	12.1
– furniture, fixtures and equipment	**4.2**	1.7
– motor vehicles	**1.5**	2.9
Audit fees – principal auditors	**0.7**	0.6
– other auditors	**0.4**	0.3

Audit fees include £0.1 million (2001 £0.1 million) for the audit of the Company by the principal auditors. In addition to audit fees, other fees paid to the auditors, including fees capitalised, were as follows:

	Principal auditors £million	Other auditors £million	2002 £million	2001 £million
Due diligence reviews	0.2	0.1	**0.3**	0.2
Taxation services	0.3	0.1	**0.4**	0.1
Other	0.2	–	**0.2**	0.2
	0.7	0.2	**0.9**	0.5

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £million	2001 restated £million
UK corporation tax		
Current tax on income for the period at 30% (2001 30%)	**26.5**	24.1
Adjustment in respect of prior periods	**(0.9)**	(0.2)
	25.6	23.9
Double taxation relief	**(5.8)**	(3.3)
	19.8	20.6
Overseas tax		
Current tax on income for the period	**27.6**	26.8
Adjustment in respect of prior periods	**0.6**	–
	28.2	26.8
Associated undertakings – current tax	**7.9**	5.6
Current tax charge	**55.9**	53.0
Deferred tax		
UK	**(1.1)**	–
Overseas	**4.0**	(0.5)
Adjustment in respect of prior periods	**(1.1)**	(0.2)
Deferred tax charge	**1.8**	(0.7)
	57.7	52.3

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Adoption of FRS 19 has required a change in the method of accounting for deferred tax. As a result the comparative figure for the tax on profit on ordinary activities has been restated from the previously reported amount of £50.8 million to £52.3 million. The impact of adopting FRS 19 on the 2002 results is an increase in the tax charge of £0.6 million. All charges for deferred tax in the current and prior periods have arisen due to the origination and reversal of timing differences.

Alliance UniChem's principal operations are in Europe and the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation and amortisation of intangible assets. The reconciliation of expected tax charge using this standard tax rate of 32.5% (2001 32.0%) to the actual current tax charge is as follows:

	2002 £million	2001 £million
Profit on ordinary activities before taxation	166.9	147.8
Amortisation of intangible assets	12.6	11.3
Profit on ordinary activities before taxation and amortisation	179.5	159.1

	2002 £million	2001 £million
Expected tax charge at standard tax rate	58.3	51.0
Permanent differences	1.0	5.8
Roll-over relief on capital gains	(1.0)	(3.3)
Other exempt capital gains	(0.2)	(0.8)
Tax losses brought forward and utilised in year	(0.1)	(1.3)
Unrelieved tax losses arising in year	1.1	1.3
Other timing differences	(2.9)	0.5
Adjustment in respect of prior periods	(0.3)	(0.2)
Current tax charge	55.9	53.0

(9) DIVIDENDS

	2002 £million	2001 £million
Interim paid, net 5.2 pence (2001 4.8 pence)	17.8	15.6
Final proposed, net 10.1 pence (2001 9.2 pence)	34.8	30.2
	52.6	45.8

(10) EARNINGS PER SHARE

	Profit for the financial year 2002 £million	Weighted average number of shares 2002 million	Earnings per share 2002 pence	Profit for the financial year 2001 £million	Weighted average number of shares 2001 million	Earnings per share 2001 pence
Basic	**108.8**	**328.9**	**33.1**	94.5	319.4	29.6
Share options	**–**	**1.9**	**(0.2)**	–	2.2	(0.2)
Deferred acquisition consideration	**0.2**	**0.9**	**–**	–	–	–
Diluted	**109.0**	**331.7**	**32.9**	94.5	321.6	29.4
Basic	**108.8**	**328.9**	**33.1**	94.5	319.4	29.6
Amortisation of intangible assets	**12.6**	**–**	**3.8**	11.3	–	3.5
Basic, before amortisation of intangible assets	**121.4**	**328.9**	**36.9**	105.8	319.4	33.1
Share options	**–**	**1.9**	**(0.2)**	–	2.2	(0.2)
Deferred acquisition consideration	**0.2**	**0.9**	**–**	–	–	–
Diluted, before amortisation of intangible assets	**121.6**	**331.7**	**36.7**	105.8	321.6	32.9

Earnings per share are also calculated before amortisation of intangible assets and exceptional items, if any, since the Directors consider that this gives a useful additional indication of underlying performance.

The diluted earnings per share calculations are based on the assumption that shares that may be potentially issued to meet the deferred consideration for the acquisition of Hedef-Alliance, were issued when the investment was made. The discount on this deferred acquisition consideration is therefore adjusted when computing the relevant profit for the financial year.

(11) INTANGIBLE FIXED ASSETS

	Positive goodwill £million	Negative goodwill £million	Total goodwill £million	Retail pharmacy licences £million	Total £million
Cost					
At 1 January	158.9	–	158.9	484.5	**643.4**
Business acquired	14.8	(1.9)	12.9	67.3	**80.2**
Transfer from unlisted investments	1.6	–	1.6	–	**1.6**
Disposals	(0.1)	–	(0.1)	(2.7)	**(2.8)**
Currency translation differences	9.9	–	9.9	13.6	**23.5**
At 31 December	185.1	(1.9)	183.2	562.7	**745.9**
Amortisation					
At 1 January	11.9	–	11.9	0.9	**12.8**
Charge/(credit) for the year	8.7	(0.2)	8.5	0.4	**8.9**
Currency translation differences	1.0	–	1.0	0.1	**1.1**
At 31 December	21.6	(0.2)	21.4	1.4	**22.8**
Net book value At 31 December 2002	**163.5**	**(1.7)**	**161.8**	**561.3**	**723.1**
Net book value At 31 December 2001	147.0	–	147.0	483.6	630.6

Negative goodwill arose on the acquisition of Holtung in 2002 and is being released to the profit and loss account over a four-year period, being the estimated economic life.

Notes to the financial statements (continued)

for the year ended 31 December 2002

(12) TANGIBLE FIXED ASSETS

Group	Land and buildings Freehold £million	Long leasehold £million	Short leasehold £million	Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
Cost						
At 1 January	145.9	20.8	4.9	240.4	25.9	**437.9**
Additions	13.3	–	0.1	37.6	5.3	**56.3**
Businesses acquired	6.9	–	–	4.5	0.2	**11.6**
Disposals	(8.1)	–	–	(6.9)	(7.3)	**(22.3)**
Currency translation differences	8.3	0.8	–	11.0	0.4	**20.5**
At 31 December	166.3	21.6	5.0	286.6	24.5	**504.0**
Depreciation						
At 1 January	29.0	3.4	1.9	135.2	13.2	**182.7**
Charge for the year	2.6	0.5	0.3	28.8	4.9	**37.1**
Businesses acquired	0.5	–	–	1.6	0.1	**2.2**
Disposals	(1.2)	–	–	(4.5)	(5.0)	**(10.7)**
Currency translation differences	1.6	0.1	–	6.3	0.3	**8.3**
At 31 December	32.5	4.0	2.2	167.4	13.5	**219.6**
Net book value						
At 31 December 2002	**133.8**	**17.6**	**2.8**	**119.2**	**11.0**	**284.4**
At 31 December 2001	116.9	17.4	3.0	105.2	12.7	255.2

Company	Freehold £million	Long leasehold £million	Short leasehold £million	Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
Cost						
At 1 January	–	–	0.6	0.7	0.8	**2.1**
Additions	–	–	–	0.2	0.3	**0.5**
Disposals	–	–	–	(0.2)	(0.3)	**(0.5)**
At 31 December	–	–	0.6	0.7	0.8	**2.1**
Depreciation						
At 1 January	–	–	0.1	0.2	0.4	**0.7**
Charge for the year	–	–	–	0.2	0.2	**0.4**
Disposals	–	–	–	(0.1)	(0.2)	**(0.3)**
At 31 December	–	–	0.1	0.3	0.4	**0.8**
Net book value						
At 31 December 2002	–	–	**0.5**	**0.4**	**0.4**	**1.3**
At 31 December 2001	–	–	0.5	0.5	0.4	1.4

The Group cost of long leaseholds includes capitalised interest of £0.5 million (2001 £0.4 million).

Included within the Group tangible fixed assets are assets held under finance leases with the following net book values:

Group	2002 £million	2001 £million
Land and buildings	**21.7**	18.0
Furniture, fixtures and equipment	**0.1**	0.3
	21.8	18.3

(13) FIXED ASSET INVESTMENTS

Group	2002 £million	2001 £million
Associated undertakings	**250.5**	167.6
Other investments	**81.6**	68.1
	332.1	235.7

Group Associated undertakings	Goodwill on associated undertakings £million	Share of net assets of associated undertakings £million	Loans to associated undertakings £million	Total £million
At 1 January	62.7	80.1	24.8	**167.6**
Profit for the year	–	14.4	–	**14.4**
Amortisation of goodwill	(3.7)	–	–	**(3.7)**
Dividends	–	(2.7)	–	**(2.7)**
Additions	23.4	30.0	12.6	**66.0**
Transfer from unlisted investments	–	0.4	–	**0.4**
Disposals	(0.1)	(1.5)	(0.8)	**(2.4)**
Currency translation differences	2.3	5.9	2.7	**10.9**
At 31 December	84.6	126.6	39.3	**250.5**

In September 2002, the Group increased its stake in Hedef-Alliance from 25% to 50%, paying £20.8 million in cash on completion. A further amount will be payable, dependant upon performance, in cash or shares, or a combination thereof, at the Group's option, which the Directors anticipate will not exceed US$38.8 million (£24.1 million). The estimated deferred consideration has been discounted and accounted for as shares to be issued of £17.7 million in accordance with FRS 4 "Capital Instruments". Provisional goodwill of £20.8 million has been recognised in respect of this transaction.

Loans to associated undertakings are provided at normal commercial rates.

Group Other investments	ESOP investment in own shares £million	Other listed investments £million	Other unlisted investments £million	Total £million
At 1 January	13.9	47.5	6.7	**68.1**
Additions	17.1	–	0.1	**17.2**
Businesses acquired	–	–	0.3	**0.3**
Disposals	(4.9)	–	(0.1)	**(5.0)**
Transfer to associated undertakings	–	–	(0.4)	**(0.4)**
Transfer to intangible assets	–	–	(1.6)	**(1.6)**
Currency translation differences	–	3.8	(0.8)	**3.0**
At 31 December	26.1	51.3	4.2	**81.6**

Company	Shares in group undertakings £million	Loans to group undertakings £million	Shares in associated undertakings £million	Loans to associated undertakings £million	ESOP investment in own shares £million	Total £million
At 1 January	707.2	485.6	–	0.6	13.9	**1,207.3**
Additions	23.5	205.4	37.7	–	17.1	**283.7**
Disposals	–	–	–	(0.6)	(4.9)	**(5.5)**
Currency translation differences	–	45.8	–	–	–	**45.8**
At 31 December	730.7	736.8	37.7	–	26.1	**1,531.3**

(13) FIXED ASSET INVESTMENTS (CONTINUED)

The Employee Share Trust (ESOP) had an investment at 31 December 2002 of £26.1 million (2001 £13.9 million) in 6.4 million (2001 3.7 million) of the Company's shares. The market value of the holding at 31 December 2002 was £28.4 million (2001 £19.0 million). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options with administrative costs absorbed by the Company.

The aggregate market value of the Group's other listed investments on 31 December 2002 was £52.1 million (2001 £50.3 million).

(14) STOCKS

Stocks consists of goods held for resale. Their replacement cost does not differ significantly from the carrying value.

(15) SECURITISED RECEIVABLES

French and Italian schemes

Certain amounts receivable from French and Italian pharmacies have been securitised on a non-recourse basis, under five year facilities. The Italian facility was entered into during the year and the French facility was renewed in the year. The Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements, nor does it intend to do so. The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

UK scheme

In 2001, the Group entered into a five year agreement to sell UK receivables to Alliance No.1 PLC ("Alliance"). Alliance has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £15.4 million (of which £14.8 million is subordinated), representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £15.4 million of finance provided by the Group.

Under the agreements with the note holders, the Group is not obliged to support any losses in respect of the securitised receivables other than to the extent of the subordinated loans and does not intend to do so.

The controlling interest in Alliance is held by a discretionary trust established for charitable purposes. The Group receives interest on the subordinated loans and is paid administrative fees by Alliance.

Alliance is a quasi-subsidiary of the Group and is not consolidated, as it meets the requirements of linked presentation under FRS 5 "Reporting the substance of transactions". The summary financial position of Alliance was:

Profit and loss	2002 £million	2001 £million
Interest receivable	**6.4**	2.3
Interest payable	**(6.4)**	(2.3)
Net interest receivable	**–**	–
Administrative expenses	**–**	–
Profit for the financial period	**–**	–

Balance sheet	2002 £million	2001 £million
Current assets – investments	**116.0**	112.3
– cash at bank	**4.1**	1.0
Creditors due within one year	**(0.8)**	(0.6)
Creditors due in more than one year – debt securities	**(119.3)**	(112.6)
Net assets represented by equity shareholders' funds	**–**	0.1

The current asset investments include amounts owed by Group Companies, being £36.1 million (2001 £73.1 million) collected in respect of securitised receivables and held in trust on 31 December.

(16) OTHER DEBTORS

	Group 2002 £million	Group 2001 £million	Company 2002 £million	Company 2001 £million
Amounts falling due within one year				
Trade debtors	**819.6**	675.7	**–**	–
Amounts owed by associated undertakings	**0.7**	0.1	**–**	–
Loans to customers	**39.1**	46.4	**–**	–
Other debtors and accrued income	**86.7**	123.5	**8.4**	7.2
Pension prepayment	**2.7**	1.9	**2.4**	1.9
Other prepayments	**26.4**	25.8	**1.2**	0.5
Corporation tax recoverable	**5.1**	–	**–**	–
Deferred tax	**3.3**	5.9	**0.5**	–
Group relief receivable	**–**	–	**5.8**	3.4
	983.6	879.3	**18.3**	13.0
Amounts falling due after more than one year				
Trade debtors	**1.8**	1.1	**–**	–
Loans to customers	**31.8**	17.7	**–**	–
Other debtors	**2.7**	1.9	**–**	–
	36.3	20.7	**–**	–
Total	**1,019.9**	900.0	**18.3**	13.0

(17) NET BORROWINGS

	Group 2002 £million	Group 2001 £million	Company 2002 £million	Company 2001 £million
Amounts falling due within one year				
Bank overdrafts	**245.9**	257.7	**56.0**	28.7
Bank loans	**95.8**	25.5	**46.6**	12.7
Loan notes	**18.9**	63.3	**9.9**	63.2
Obligations under finance leases	**1.1**	2.0	**–**	–
	361.7	348.5	**112.5**	104.6
Amounts falling due after more than one year				
Bank loans	**121.9**	301.4	**94.1**	259.3
2008 Senior notes 6.63% (US$57 million)	**32.8**	30.7	**32.8**	30.7
2009 Senior notes 6.67% (US$113 million)	**65.0**	61.0	**65.0**	61.0
2011 Senior notes 6.55% (US$173 million)	**126.5**	118.8	**126.5**	118.8
2011 Senior notes 6.07% (€30 million)	**19.6**	18.3	**19.6**	18.3
2012 Senior notes 7.19% (US$300 million)	**216.1**	–	**216.1**	–
2017 Senior notes 7.01% (£50 million)	**50.7**	–	**50.7**	–
Other loan notes	**27.5**	31.4	**27.5**	23.2
Obligations under finance leases	**8.1**	8.7	**–**	–
	668.2	570.3	**632.3**	511.3
Total borrowings	**1,029.9**	918.8	**744.8**	615.9
Cash at bank and in hand	**(149.7)**	(137.4)	**(11.8)**	(0.1)
Net borrowings	**880.2**	781.4	**733.0**	615.8

Interest on bank loans at the year end was at floating rates of between 0.98% and 7.43%, dependent upon the currency borrowed.

(17) NET BORROWINGS (CONTINUED)

Loan notes totalling £8.9 million falling due within one year may be redeemed on 31 May 2003. The remaining loan notes can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, these notes will fall due at their maturity dates, which for the most part will be 2012. At the year end these loan notes bore interest at floating rates of between 2.90% and 3.38% per annum.

The proceeds from the issue of Senior notes have been effectively converted through cross-currency swaps into the currencies of the underlying debt being refinanced (Euros, Swiss francs, Sterling and Norwegian kroner). At the same time, the underlying fixed interest rates have been swapped into floating rates of the relevant currency for the duration of the Senior notes. At the year end the Senior notes effectively bore interest at floating rates of between 2.01% and 7.52% per annum dependant upon currency. The amount reported against each Senior note represents the translation of the swapped currencies at year end exchange rates.

The other loan notes falling due after more than one year are repayable in 2004. At the year end, they bore interest at a fixed rate of 3.50% per annum.

Within cash at bank and in hand, amounts totalling £36.1 million (2001 £73.1 million) were temporarily held in trust in relation to the UK securitised receivables programme. Excluding these amounts, cash at bank and in hand totalled £113.6 million (2001 £64.3 million).

(18) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial review. Short-term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities is set out below:

	2002		2001	
	Book value £million	Fair value £million	Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations:				
Cash at bank and in hand	**149.7**	**149.7**	137.4	137.4
Loans to associated undertakings	**39.3**	**39.3**	24.8	24.8
Other listed investments	**51.3**	**52.1**	47.5	50.3
Other unlisted investments	**4.2**	**4.2**	6.7	6.7
Debtors due after one year	**36.3**	**36.3**	20.7	20.7
Financial assets	**280.8**	**281.6**	237.1	239.9
Bank overdrafts	**(245.9)**	**(245.9)**	(257.7)	(257.7)
Bank loans	**(217.7)**	**(217.7)**	(326.9)	(326.9)
Loan notes	**(557.1)**	**(557.1)**	(323.5)	(323.5)
Obligations under finance leases	**(9.2)**	**(9.2)**	(10.7)	(10.7)
Financial liabilities	**(1,029.9)**	**(1,029.9)**	(918.8)	(918.8)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate derivatives	**–**	**(14.1)**	–	(8.8)
Cross currency derivatives	**(5.5)**	**(5.7)**	0.8	0.8
	(5.5)	**(19.8)**	0.8	(8.0)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair value of all other financial instruments is approximately equal to book value due to either their short-term nature or their being at variable interest rates.

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile

The interest rate profile of financial assets and liabilities, after taking into account interest rate and currency derivative contracts, was as follows:

2002 Financial assets	Fixed rate financial assets: Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	Non-interest bearing £million	Total £million
Sterling	–	–	–	**56.5**	**0.5**	**57.0**
Euro	–	–	–	**114.7**	**56.3**	**171.0**
Other	–	–	–	**49.6**	**3.2**	**52.8**
				220.8	**60.0**	**280.8**
2001 Financial assets						
Sterling	–	–	–	88.3	4.4	92.7
Euro	–	–	–	51.2	59.6	110.8
Other	4.0	1.0	1.0	32.6	–	33.6
			1.0	172.1	64.0	237.1

Floating rate financial assets mainly comprise bank deposits predominantly bearing interest based on London interbank reference rates.

2002 Financial liabilities	Fixed rate financial liabilities: Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	Total £million
Sterling	**4.9**	**2.5**	**47.1**	**95.0**	**142.1**
Euro	**4.5**	**1.7**	**597.6**	**80.1**	**677.7**
Other	**5.9**	**1.7**	**32.8**	**177.3**	**210.1**
			677.5	**352.4**	**1,029.9**
2001 Financial liabilities					
Sterling	4.7	2.1	65.5	102.2	167.7
Euro	4.6	2.4	474.8	108.6	583.4
Other	5.3	2.1	37.0	130.7	167.7
			577.3	341.5	918.8

The Group has further Euro denominated derivative financial instruments to hedge securitisation costs that vary according to interest rates, totalling £131.8 million (2001 £79.6 million). These instruments have a weighted average interest rate of 4.5% which is fixed for a weighted average period of 1.7 years (2001 4.6% and 2.4 years).

Floating rate financial liabilities mainly comprise bank overdrafts, loans and loan notes predominantly bearing interest at margins over London interbank reference rates.

(c) Currency profile

There are no significant unmatched currency exposures on monetary assets and liabilities after taking into account the effects of currency swaps and forward exchange contracts.

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(d) Maturity profile of financial liabilities

An analysis of financial liabilities, by due date of repayment, is as follows:

2002	Bank overdrafts £million	Bank loans £million	Loan notes £million	Obligations under finance leases £million	Total £million
Within one year	**245.9**	**95.8**	**18.9**	**1.1**	**361.7**
Between one and two years	**–**	**22.5**	**27.5**	**1.4**	**51.4**
Between two and five years	**–**	**90.4**	**–**	**4.0**	**94.4**
Over five years	**–**	**9.0**	**510.7**	**2.7**	**522.4**
	245.9	**217.7**	**557.1**	**9.2**	**1,029.9**
2001					
Within one year	257.7	25.5	63.3	2.0	348.5
Between one and two years	–	15.9	8.2	1.3	25.4
Between two and five years	–	273.2	23.2	3.7	300.1
Over five years	–	12.3	228.8	3.7	244.8
	257.7	326.9	323.5	10.7	918.8

(e) Undrawn committed borrowing facilities

The maturity profile of the Group's undrawn committed facilities, where all conditions precedent had been met, at 31 December was:

	2002 £million	2001 £million
Within one year	**3.0**	88.6
Between one and two years	**–**	21.7
Between two and five years	**102.3**	–
Total	**105.3**	110.3

(f) Hedging

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on hedging instruments, and movements therein, were as follows:

Unrecognised gains and losses	Gains £million	Losses £million	Total £million
At 1 January 2002	–	(8.8)	**(8.8)**
Arising in previous years that were recognised in the year	–	0.5	**0.5**
Arising before 1 January that were not recognised in the year	–	(8.3)	**(8.3)**
Arising in the year that were not recognised in the year	5.4	(11.4)	**(6.0)**
At 31 December 2002	**5.4**	**(19.7)**	**(14.3)**
Of which expected to be recognised:			
In 2003	2.4	(13.3)	**(10.9)**
After 2003	3.0	(6.4)	**(3.4)**

(19) OTHER CREDITORS

Amounts falling due within one year	Group 2002 £million	Group 2001 £million	Company 2002 £million	Company 2001 £million
Trade creditors	**967.6**	958.1	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**125.3**	124.3
Amounts owed to associated undertakings	**–**	0.9	**–**	–
Other creditors	**119.4**	84.5	**10.3**	13.2
Corporate tax	**21.0**	36.2	**–**	1.9
Other taxation and social security	**86.5**	62.4	**3.6**	–
Accruals and deferred income	**49.5**	38.6	**8.9**	–
Proposed dividend	**34.8**	31.5	**34.8**	31.5
	1,278.8	1,212.2	**182.9**	170.9

(20) PROVISIONS FOR LIABILITIES AND CHARGES

Group	Deferred tax £million	Pensions £million	Total £million
At 1 January 2002, as previously stated	5.0	7.7	12.7
Prior year adjustment for FRS 19	3.7	–	3.7
At 1 January 2002, as restated	8.7	7.7	16.4
At 1 January 2002, in debtors	(5.9)	(1.9)	(7.8)
Charge for the year	1.8	12.5	14.3
Utilised	0.5	(12.2)	(11.7)
Businesses acquired	0.7	0.3	1.0
Currency translation differences	0.1	0.3	0.4
	5.9	6.7	12.6
Asset recognised in debtors	3.3	2.7	6.0
At 31 December 2002	**9.2**	**9.4**	**18.6**

The deferred tax asset at 31 December 2002 of £3.3 million represents £1.5 million of losses expected to be utilised following recapitalisation of certain Group companies in 2002 and £1.8 million of other timing differences.

Financial Reporting Standard 19 “Accounting for Deferred Tax” (FRS 19) has been adopted with effect from 1 January 2002 and comparative figures restated. This has resulted in an increased provision for deferred tax of £3.7 million arising from the recognition of further deferred tax on accelerated capital allowances and other timing differences.

Company	Deferred tax £million	Pensions £million	Total £million
At 1 January 2002, in debtors	–	(1.9)	**(1.9)**
Charge for the year	(0.5)	1.0	**0.5**
Utilised	–	(1.5)	**(1.5)**
Asset recognised in debtors	0.5	2.4	**2.9**
At 31 December 2002	–	–	–

Notes to the financial statements (continued)

for the year ended 31 December 2002

(20) PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The sources of deferred tax and the amount for which no provision has been made are as follows:

	Provided		Not provided	
Group	2002 £million	2001 restated £million	2002 £million	2001 restated £million
Capital allowances	**12.6**	11.1	**(0.1)**	(0.3)
Pension accrual	**(2.2)**	(2.4)	**–**	–
Other timing differences	**(2.9)**	(0.7)	**–**	(0.5)
Unrelieved tax losses	**(1.6)**	(5.3)	**(5.6)**	–
Chargeable gains deferred by roll-over relief	**–**	–	**13.8**	15.0
Property revaluation	**–**	0.1	**4.6**	4.8
Capital losses	**–**	–	**(0.9)**	(2.7)
	5.9	2.8	**11.8**	16.3

Company				
Short-term timing differences	**(0.5)**	–	**–**	–

No deferred tax has been provided on gains covered by roll-over relief as such tax, estimated to be £13.8 million, would only become payable if the replacement property was sold without roll-over relief being obtained. No deferred tax has been provided on property revaluations as such tax, estimated to be £4.6 million, would only become payable if the property were sold without further roll-over relief being obtained.

(21) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost was £12.5 million (2001 £8.2 million). Included in the balance sheet is a prepayment totalling £2.7 million (2001 £1.9 million) representing the excess of the cumulative contributions paid over the accumulated pension cost in respect of the UK and Norwegian schemes and a provision of £9.4 million (2001 £7.7 million) being the liability in respect of schemes in France and the Netherlands.

UK scheme

The Group operates a principal UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefit arrangement, and the UK Contribution Plan, which is a funded defined contribution arrangement. Both plans are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs (and balance sheet prepayment) in respect of the Benefit Plan are assessed in accordance with the advice of Hewitt Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2000. The method for the valuation was the projected unit method and the main assumptions were:

	% per annum
Investment return post-retirement	4.9
Investment return pre-retirement for active members	6.9
Salary increases	3.9
Pension in payment increases for members who joined up to 31 December 1996	5.0
Pension in payment increases for members who joined from 1 January 1997	2.8

Following the valuation, it was agreed to adopt an employer contribution rate of 13.3% of pensionable pay, effective from 1 January 2001.

At 1 January 2000, the actuarial value of the Benefit Plan's assets was £59.5 million. This represented 101% of the value of the benefits that had accrued to members after allowing, in the case of active members, for the future increases to salaries.

(21) PENSIONS (CONTINUED)

Other schemes

The Group also sponsors a number of defined benefit plans. The costs of these plans have been recognised in the Group financial statements in accordance with the requirements of SSAP24. The material plans are in France, The Netherlands and, following the acquisition of Holtung during the year, in Norway.

FRS 17 disclosures

The Group is making use of the transitional arrangements regarding the adoption of FRS 17 "Retirement Benefits". As required under these transitional provisions, certain information is disclosed below under FRS 17 as if it had been applied from 1 January 2002.

The main financial assumptions used by the actuaries at 31 December were:

	2002		2001	
	UK benefit plan % pa	Other European % pa	UK benefit plan % pa	Other European % pa
Discount rate	5.4	5.5	5.9	5.5
Inflation rate	2.3	2.5	2.5	2.0
Salary increases	3.3	2.5	3.5	2.7
Pension in payment increases for members who:				
joined up to 31 December 1996	5.0	2.0	5.0	2.5
joined from 1 January 1997	2.3	2.0	2.5	2.5

Market value of the assets and expected rates of return for the defined benefit schemes were:

	2002		2001	
UK Benefit Plan	Expected return % pa	Value £million	Expected return % pa	Value £million
Equities	7.5	40.8	7.9	45.3
Bonds	4.4	15.2	5.0	14.0
Other	4.0	2.7	4.9	1.8
		58.7		61.1
Other European				
Equities	8.0	3.2	8.0	4.1
Bonds	5.1	13.5	5.0	9.8
Other	5.0	4.9	5.0	4.2
		21.6		18.1

(21) PENSIONS (CONTINUED)

The value of the defined benefit pension scheme assets and liabilities can be summarised:

	2002			2001		
	UK benefit plan £million	Other European £million	Total £million	UK benefit plan £million	Other European £million	Total £million
Total market value of assets	**58.7**	**21.6**	**80.3**	61.1	18.1	79.2
Present value of scheme liabilities	**(82.9)**	**(32.2)**	**(115.1)**	(67.3)	(26.8)	(94.1)
Deficit in the schemes	**(24.2)**	**(10.6)**	**(34.8)**	(6.2)	(8.7)	(14.9)
Related deferred tax asset	**7.3**	**3.7**	**11.0**	1.9	3.0	4.9
Net pension liability	**(16.9)**	**(6.9)**	**(23.8)**	(4.3)	(5.7)	(10.0)

If these amounts had been recognised in the financial statements, the Group's net profit and loss account would have been as follows:

	2002 £million	2001 £million
Net assets excluding pension liability	**881.3**	700.5
Net pension liability	**(23.8)**	(10.0)
Net assets including pension liability	**857.5**	690.5
Profit and loss account excluding pension liability	**396.7**	330.7
Pension reserve	**(23.8)**	(10.0)
Profit and loss account	**372.9**	320.7

The Group pension expense in 2002 for its defined benefit schemes under FRS 17 would have been:

Profit and loss account	UK benefit plan £million	Other European £million	Total £million
Charge to operating profit	(4.1)	(2.3)	(6.4)
Expected return on pension scheme assets	4.6	1.1	5.7
Interest on pension scheme liabilities	(4.0)	(1.7)	(5.7)
Amount credited to other finance income	0.6	(0.6)	–
Net pension expense before taxation	**(3.5)**	**(2.9)**	**(6.4)**

The charge to operating profit is all in respect of the current service cost. The net pension expense before taxation compares to an actual amount charged of £7.4 million in respect of defined benefit schemes under SSAP 24 in 2002.

Statement of total recognised gains and losses	UK benefit plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	(13.6)	(1.2)	(14.8)
Experience gains and losses arising on the scheme liabilities	–	(0.3)	(0.3)
Changes in assumptions underlying the present value of the scheme liabilities	(6.6)	1.8	(4.8)
Actuarial loss recognised	**(20.2)**	**0.3**	**(19.9)**

(21) PENSIONS (CONTINUED)

Movement in scheme deficit	UK benefit plan £million	Other European £million	Total £million
Deficit at 1 January 2002	(6.2)	(8.7)	(14.9)
Current service costs	(4.1)	(2.3)	(6.4)
Contributions	5.7	1.2	6.9
Businesses acquired	–	0.1	0.1
Other finance income	0.6	(0.6)	–
Actuarial loss	(20.2)	0.3	(19.9)
Currency translation differences	–	(0.6)	(0.6)
Deficit at 31 December 2002	**(24.2)**	**(10.6)**	**(34.8)**

Details of experience gains and losses for 2002	UK benefit plan £million	Other European £million
Difference between expected and actual returns on scheme assets		
Amount	**(13.6)**	**(1.2)**
Percentage of scheme assets (%)	**(23.2)**	**(5.6)**
Experience gains and losses on scheme liabilities		
Amount	**–**	**(0.3)**
Percentage of present value of scheme liabilities (%)	**–**	**(0.9)**
Amount in Group statement of total recognised gains and losses		
Amount	**(20.2)**	**0.3**
Percentage of present value of scheme liabilities (%)	**(24.4)**	**0.9**

(22) SHARE CAPITAL

	Number million	Share capital 10p ordinary shares £million
Authorised share capital	432.9	43.3
Called up, issued and fully paid up		
At 1 January 2002	326.1	32.6
Shares issued during the year	18.7	1.9
At 31 December 2002	**344.8**	**34.5**

Details of shares allotted during the year were:

	Number million	Price paid per share £	Consideration £million
Share option exercises:			
Cash from employees	0.7	1.92-4.63	1.6
Contribution from Employee Trust	–	–	2.3
Scrip elections in lieu of:			
2001 final dividend	1.3	5.99	7.8
2002 interim dividend	0.3	5.18	1.5
Businesses acquired	0.1	5.38	0.7
Share placing	16.3	5.50	88.1
Share capital and share premium account movement	18.7		102.0
Of which:			
Share capital			1.9
Share premium account			100.1

(22) SHARE CAPITAL (CONTINUED)

Details of outstanding options over ordinary shares at 31 December 2002 were:

Year of grant	Price (p)	Outstanding 2002	Outstanding 2001	Normally exercisable from
1990 Savings related scheme				
1994	208.00	–	12,374	01.12.2001 to 30.05.2002
1995	213.00	–	18,196	01.07.2002 to 30.12.2002
1995	216.00	**3,429**	8,123	01.12.2002 to 30.05.2003
1996	192.00	–	18,501	01.07.2001 to 30.12.2001
1996	192.00	**91,349**	91,349	01.07.2003 to 30.12.2003
1997	214.00	**10,312**	377,145	01.07.2002 to 30.12.2002
1997	214.00	**139,265**	145,277	01.07.2004 to 30.12.2004
1998	324.00	–	24,168	01.08.2001 to 30.01.2002
1998	324.00	**241,849**	260,503	01.08.2003 to 30.01.2004
1998	324.00	**83,371**	87,219	01.08.2005 to 30.01.2006
1999	384.00	**14,856**	191,074	01.07.2002 to 30.12.2002
1999	384.00	**158,581**	172,718	01.07.2004 to 30.12.2004
1999	384.00	**46,242**	46,816	01.07.2006 to 30.12.2006
2000	291.00	**393,379**	448,525	01.07.2003 to 30.12.2003
2000	291.00	**278,406**	302,046	01.07.2005 to 30.12.2005
2000	291.00	**129,785**	133,823	01.07.2007 to 30.12.2007
2001	463.00	**327,660**	376,026	01.07.2004 to 30.12.2004
2001	463.00	**260,885**	289,068	01.07.2006 to 30.12.2006
2001	463.00	**61,637**	77,346	01.07.2008 to 31.12.2008
2002	480.00	**474,556**	–	01.07.2005 to 30.12.2005
2002	480.00	**339,784**	–	01.07.2007 to 30.12.2007
2002	480.00	**86,037**	–	01.07.2009 to 30.12.2009
		3,141,383	3,080,297	
1990 Executive scheme				
1993	253.99	**55,000**	59,890	01.11.1996 to 30.10.2003
1994	260.00	**60,000**	75,000	21.10.1997 to 20.10.2004
1995	269.00	**372**	372	18.10.1998 to 17.10.2005
		115,372	135,262	
1997 Discretionary scheme				
1997	268.50	**66,872**	146,872	13.06.2000 to 12.06.2004
1998	429.50	**1,011,778**	1,152,778	07.05.2001 to 06.05.2005
1999	442.00	**664,500**	1,060,000	14.05.2002 to 13.05.2006
1999	435.00	**90,222**	90,222	27.05.2002 to 26.05.2006
2000	379.00	**1,343,084**	1,373,084	23.03.2003 to 22.03.2007
2001	592.00	**1,800,000**	1,830,000	06.04.2004 to 05.04.2008
2002	609.00	**1,990,000**	–	09.04.2005 to 08.04.2009
		6,966,456	5,652,956	
1998 Long term incentive plan				
2001	0.0001	**31,812**	45,325	06.04.2001 to 05.04.2011
2002	0.0001	**40,023**	–	19.03.2002 to 18.03.2012
		71,835	45,325	

(23) SHARES TO BE ISSUED

The shares to be issued represent the estimated value of the shares, including share premium, that will be potentially issued for deferred consideration for the acquisition of Hedef- Alliance, discounted to reflect the future payment date. The Group can elect to satisfy the deferred consideration for Hedef-Alliance in cash or shares, or a combination thereof.

(24) OTHER RESERVES

Group	Share premium account £million	Capital reserve £million	Profit and loss account £million
At 1 January 2002, as previously stated	319.7	1.4	330.8
Prior year adjustment for FRS 19	–	–	(3.7)
At 1 January 2002, as restated	319.7	1.4	327.1
Shares issued	100.1	–	–
Retained profit for the year	–	–	56.2
Transfer from profit and loss to capital reserve	–	0.8	(0.8)
Employee Trust	–	–	(2.3)
Currency translation differences	–	–	7.8
Tax on currency translation differences on foreign currency borrowings	–	–	4.5
At 31 December 2002	**419.8**	**2.2**	**392.5**

Company			
At 1 January 2001	319.7	–	82.7
Shares issued	100.1	–	–
Retained profit for the year	–	–	80.3
At 31 December 2002	**419.8**	**–**	**163.0**

The capital reserve represents non-distributable reserves arising in some countries.

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the financial year dealt with in the profit and loss account of the Company was £132.9 million (2001 £38.5 million).

(25) ACQUISITIONS

The Group has continued its development during the year through a number of business acquisitions, that have been accounted for by the acquisition accounting method, and are summarised for wholesale and retail acquisition below.

Wholesale Assets acquired at book and fair value	Book value at acquisition £million	Accounting policy alignment £million	Fair value alignment £million	Provisional fair value £million
Fixed assets – tangible	9.2	(0.2)	(1.9)	**7.1**
– investments	0.3	–	–	**0.3**
Stock	18.3	(0.1)	(0.2)	**18.0**
Debtors	32.6	(2.2)	(0.3)	**30.1**
Creditors and provisions	(51.5)	(0.4)	1.4	**(50.5)**
Minority interests acquired	4.4	–	–	**4.4**
	13.3	(2.9)	(1.0)	**9.4**
Overdraft acquired	(9.5)	–	–	**(9.5)**
Borrowings acquired	(2.6)	–	–	**(2.6)**
Assets/(liabilities) acquired	1.2	(2.9)	(1.0)	**(2.7)**

Consideration paid				
Cash				**(7.4)**
Purchased goodwill				**10.1**

(25) ACQUISITIONS (CONTINUED)

In June 2002, 100% of a Norwegian wholesaler, Holtung, was acquired for £0.3 million, principally advisors costs. Assets acquired totalled £2.2 million, giving rise to provisional negative goodwill of £1.9 million.

In July 2002, 83.8% of a French wholesaler, Ouest Répartition Pharmaceutique, was acquired from the receivers of this company for £1.9 million. Net liabilities of £7.9 million were acquired giving rise to provisional goodwill of £9.8 million.

During the year, minority interests in certain wholesale businesses were acquired for £5.2 million. Assets acquired totalled £3.0 million, giving rise to provisional goodwill of £2.2 million.

Retail **Assets acquired at book and fair value**	Book and provisional fair value at acquisition £million
Fixed assets – intangible	**67.3**
– tangible	**2.3**
Stock	**5.0**
Debtors	**6.0**
Creditors and provisions	**(5.5)**
Minority interests acquired	**1.1**
	76.2
Net cash acquired	**1.0**
Assets acquired	**77.2**
Consideration paid	
Shares	**(0.7)**
Cash	**(67.4)**
Loan notes	**(13.5)**
	(81.6)
Purchased goodwill	**4.4**

Retail acquisitions comprised the acquisition of 59 pharmacies in the UK, Norway, the Netherlands and Italy. There were no accounting policy or fair value alignments required in respect of these acquisitions.

At 31 December 2002, cumulative goodwill written-off to reserves for businesses acquired prior to 1998, net of that attributable to disposals, was £360.8 million (2001 £360.8 million).

(26) CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to net cash inflow from operating activities	2002 £million	2001 £million restated
Group operating profit	**196.0**	172.8
Depreciation	**37.1**	34.1
Amortisation of goodwill	**8.5**	7.9
Amortisation of pharmacy licences	**0.4**	0.6
Profit on disposal of fixed assets	**(8.0)**	(5.5)
Decrease/(increase) in stocks	**50.1**	(22.0)
Increase in debtors	**(51.6)**	(15.6)
(Decrease)/increase in creditors	**(31.9)**	67.6
Net cash inflow from operating activities	**200.6**	239.9

(b) Returns on investments and servicing of finance		
Interest received	**9.3**	11.3
Interest paid	**(57.0)**	(48.4)
Dividends paid to minority shareholders	**(0.4)**	(0.1)
Interest element of finance lease payments	**(0.5)**	(0.8)
Net cash outflow from returns on investments and servicing of finance	**(48.6)**	(38.0)

(c) Capital expenditure and financial investment		
Purchase of fixed assets	**(56.3)**	(51.8)
Disposal of fixed assets	**18.3**	16.5
Loans to associated undertakings	**(12.6)**	(24.2)
Loans repaid by associated undertakings	**0.8**	0.5
Other investments (net)	**(12.2)**	(1.1)
Net cash outflow from capital expenditure and financial investment	**(62.0)**	(60.1)

(d) Acquisitions and disposals		
Purchase of businesses	**(74.8)**	(126.6)
Net (overdrafts)/cash of businesses acquired	**(8.5)**	1.8
Purchase of shares in associated undertakings	**(35.9)**	(38.6)
Disposal of businesses	**4.0**	24.3
Net cash of businesses sold	**–**	(0.1)
Disposal of investment in associated undertakings	**1.7**	11.1
Net cash outflow from acquisitions and disposals	**(113.5)**	(128.1)

(27) NET CASH FLOW FROM INCREASE IN DEBT AND LEASE FINANCING

	2002 £million	2001 £million
Debt due within one year:		
Net movement in money market borrowings maturing within one week	**39.5**	7.4
Decrease in short-term borrowings	**(67.3)**	(9.6)
Borrowings due after one year:		
Increase in borrowings	**267.0**	157.8
Repayment of borrowings	**(143.8)**	(69.7)
Capital element of finance lease rental payments	**(2.1)**	(3.0)
Net cash inflow from increase in debt and lease financing	**93.3**	82.9

(28) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash at bank and in hand £million	Borrowings due within one year £million	Borrowings due after more than one year £million	Net borrowings £million
At 1 January 2002	137.4	(348.5)	(570.3)	(781.4)
Increase in cash	6.1	64.1	–	70.2
Decrease/(increase) in debt	–	29.9	(123.2)	(93.3)
Businesses acquired	–	(1.7)	(0.9)	(2.6)
Reclassification	–	(77.0)	77.0	–
Other non cash movement	–	(13.5)	–	(13.5)
Currency translation differences	6.2	(15.0)	(50.8)	(59.6)
At 31 December 2002	**149.7**	**(361.7)**	**(668.2)**	**(880.2)**

(29) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of retail pharmacy businesses comprised shares and loan notes. Further details are set out in notes 22 and 25. Part of the purchase consideration for the increased stake in Hedef-Alliance comprises shares to be issued. Further details are set out in note 23.

(30) OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £million	Other £million
Within one year	2.4	1.6
Between one and two years	0.8	2.4
Between two and five years	4.3	1.8
Over five years	12.9	0.2
	20.4	**6.0**

(31) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings all of which were indirectly held except where indicated below, were:

Company	Interest in ordinary share capital (%)	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
UniChem Limited[1]	100	UK	England	pharmaceutical wholesaler
Interpharm B.V.	100	Netherlands	Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo	97.1	Czech Republic	Czech Republic	pharmaceutical wholesaler
Holtung A.S.	100	Norway	Norway	pharmaceutical wholesaler
Southern Europe Wholesale				
Alliance Santé S.A.	99.7	France	France	pharmaceutical wholesaler
Alleanza Salute Italia SpA	100	Italy	Italy	pharmaceutical wholesaler and holding company
Safa Galenica S.A.	99.2	Spain	Spain	pharmaceutical wholesaler
Alliance UniChem Farmaceutica S.A.	100	Portugal	Portugal	pharmaceutical wholesaler
Retail				
E. Moss Limited[1]	100	UK	England	retail pharmacy operator
Alliance UniChem Norge A.S.	100	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100	Netherlands	Netherlands	retail pharmacy operator

1 Directly held by the Company.

As permitted by section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

(32) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings were:

Company	Interest in ordinary share capital (%)	Country of operation	Country of incorporation	Main activity
Hedef – Alliance A.Ş.[1]	50	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G.[2]	25.3	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A.[3,4]	50	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.[4,5]	50	Switzerland	Switzerland	retail pharmacy operator
Unifarma Distribuzione S.r.l.[6]	36	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.[7]	40	Netherlands	Netherlands	pharmaceutical software

1 Representing 50% of the votes.
2 Representing 18.7% of the votes on 31 December 2002. Since the year end, the shareholders in Galenica have agreed that all shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.
3 Representing 50% of the votes.
4 The remaining shares are owned by Galenica A.G. which is itself an associated undertaking.
5 Representing 50% of the votes.
6 Representing 36% of the votes.
7 Representing 40% of the votes.

(33) RELATED PARTY TRANSACTIONS

The Group has entered into a contract with Hedef-Alliance to develop and supply warehouse management and financial software.

Trading transactions with associated undertakings were:

	2002		2001	
	Turnover in year £million	Balance at year end £million	Turnover in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	0.2	0.1	0.4	0.1

	2002		2001	
	Purchases in year £million	Balance at year end £million	Purchases in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	5.1	0.6	5.6	0.5
Alloga S.A. and subsidiaries	52.7	7.5	38.3	4.6

(34) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £42.5 million (2001 £49.9 million) and other Group companies have guaranteed bank loans of £33.6 million (2001 £34.6 million) to third parties for the financing of pharmacy businesses.

In 2001, French competition authorities levied fines on the main pharmaceutical wholesalers in France as a legacy of discounting policies operated by some wholesalers in the early 1990s. One of these companies was absorbed by Alliance Santé in 1997, and Alliance Santé has been held liable for these actions by the competition authorities. This fine has been paid, but is still under appeal; an amount of £1.4 million, reflecting 50% of the fine, was charged to the profit and loss account at the time, which the Group believes reflects its possible liability should the fine be upheld.

The Group is subject to various law suits filed in the United States in relation to its investment in Rx.com. These are being vigorously defended and, in any event, in the opinion of the Directors, will not have a significant effect on the financial position of the Group.